350

Agriculture

Budget function 350 covers programs administered by the Department of Agriculture, including activities such as agricultural research and the stabilization of farm incomes through loans, subsidies, and other payments to farmers. CBO estimates that discretionary outlays for function 350 will total more than $5 billion in 2003, and mandatory outlays will total $16 billion.

Federal Spending, Fiscal Years 1990-2003 (In billions of dollars)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	Estimate 2003
Budget Authority (Discretionary)	2.7	3.1	4.5	4.3	4.4	4.0	4.2	4.2	4.3	4.5	4.7	5.2	5.6	5.5
Outlays														
Discretionary	2.6	2.8	4.2	4.3	4.4	4.0	4.1	4.1	4.3	4.6	4.7	5.1	5.3	5.5
Mandatory	9.3	12.4	11.0	16.1	10.7	5.8	5.0	5.0	7.9	18.4	32.0	21.3	16.9	16.2
Total	12.0	15.2	15.2	20.4	15.0	9.8	9.2	9.0	12.2	23.0	36.6	26.4	22.2	21.7
Memorandum: Annual Percentage Change in Discretionary Outlays	n.a.	6.6	49.2	1.9	3.1	-8.5	3.1	-1.5	6.3	5.5	1.9	9.7	4.0	4.2

Note: n.a. = not applicable.

350-01—Mandatory

Eliminate the Foreign Market Development Program

(Millions of dollars)	2004	2005	2006	2007	2008	Total 2004-2008	Total 2004-2013
Savings							
Budget authority	24	31	35	35	35	160	335
Outlays	24	31	35	35	35	160	335

The Department of Agriculture (USDA) promotes exports and international activities through the programs of the Foreign Agricultural Service (FAS). In the Foreign Market Development Program, FAS acts as a partner in joint ventures with "cooperators," such as agricultural trade associations and commodity groups, to develop markets for U.S. exports. Eliminating funding for that program would reduce outlays by $24 million in 2004 and $160 million over five years.

The Foreign Market Development Program, also known as the Cooperator Program, typically promotes generic products and basic commodities, such as grains and oilseeds, but it also covers some higher-valued products, such as meat and poultry. The program's effectiveness and the extent to which it replaces private expenditures with public funds are uncertain. Supporters of this option contend that cooperators should bear the full cost of foreign promotions because the cooperators benefit from them directly. They also argue that the program's services duplicate USDA's Market Access Program and other activities.

Eliminating the Cooperator Program, however, could place U.S. exporters at a disadvantage in international markets, because other countries provide support to their exporters. Regarding the issue of duplicative services, some critics of this option note that the Cooperator Program is distinct from other programs in part because it focuses on services to trade organizations and technical assistance. Moreover, some opponents of this option consider the program useful for developing markets that could benefit the overall economy.

RELATED OPTIONS: 350-03 and 370-02

350-02—Mandatory

Eliminate the Market Access Program

(Millions of dollars)	2004	2005	2006	2007	2008	Total 2004-2008	Total 2004-2013
Savings							
Budget authority	6	101	140	188	200	635	1,635
Outlays	6	101	140	188	200	635	1,635

The Market Access Program (MAP) assists U.S. exporters of agricultural products. MAP provides funds to partially offset the costs of overseas market building and product promotion conducted by trade associations, commodity groups, and some for-profit firms. Under current law, funding for the program will increase from $125 million in 2004 to $200 million in 2006 and thereafter, the Congressional Budget Office estimates. Eliminating MAP would reduce outlays by $635 million over the next five years.

The program has been used to promote a wide range of products, most of them highly valued, including fruit, tree nuts, vegetables, meat, poultry, eggs, and seafood. About 25 percent of MAP's funding goes to promote brand-name products. To promote such products, cooperatives or small private companies must contribute a minimum of 50 percent of the promotion cost. To promote generic products, trade associations and others must contribute at least 10 percent of the cost.

Some supporters of this option argue that participants should bear the full cost of foreign promotions because they benefit directly from them. (The extent to which the program has developed markets or replaced private expenditures with public funds is uncertain.) In addition, some supporters note the possibility of duplication because the Department of Agriculture provides marketing funds through the Foreign Market Development Program, administered by the Foreign Agricultural Service, and other activities. Many people also object to spending taxpayers' money on advertising brand-name products.

Opponents of this option argue that eliminating MAP could place U.S. exporters at a disadvantage in international markets, because other countries support their exporters. Responding to concerns about duplication, some opponents note that MAP differs from other programs partly because it focuses on foreign retailers and consumer promotions. In addition, some critics of this option maintain that the Market Access Program is useful for developing markets that could benefit the overall economy.

RELATED OPTIONS: 350-01 and 370-02

350-03—Mandatory

Reduce the Reimbursement Rate Paid to Private Insurance Companies in the Department of Agriculture's Crop Insurance Program

(Millions of dollars)	2004	2005	2006	2007	2008	Total 2004-2008	Total 2004-2013
Savings							
Budget authority	53	53	54	55	56	271	575
Outlays	48	52	54	55	56	265	565

The Federal Crop Insurance Program protects farmers from losses caused by droughts, floods, pests, and other natural disasters. Insurance policies that farmers buy through the program are sold and serviced by private insurance firms, which receive an administrative cost reimbursement according to the total amount of insurance premiums they handle. Firms also share underwriting risk with the federal government and can gain or lose depending on the value of crop losses relative to the claims made. Overall, the companies typically gain.

The General Accounting Office (GAO) has studied the crop insurance program, particularly the amount paid to the firms that service and sell the insurance policies. In a 1997 study, GAO concluded that the amount the program had paid those firms exceeded the reasonable expenses of selling and servicing the crop insurance policies. Partly on the basis of that information, the Congress cut the reimbursement rate for the benchmark crop insurance plan from 27 percent of premiums to 24.5 percent (with comparable reductions for other plans). This option would further reduce the benchmark rate—to 22.5 percent—saving $48 million in outlays in 2004 and $265 million over the 2004-2008 period.

Proponents of this option believe that lawmakers could cut the reimbursement rate more deeply without substantially affecting the quantity or quality of services provided to farmers. In addition to relying on GAO's analysis, they point to the dramatic expansion in business that followed enactment of the Federal Crop Insurance Reform Act of 1994 and the Agricultural Risk Protection Act of 2000. The crop insurance policies in force for 2002 totaled about $37 billion, which is about three times the level of the early 1990s. Total premiums grew correspondingly, but because of economies of scale, the costs of selling and servicing the policies probably grew by less. Therefore, proponents argue, further cuts to the benchmark reimbursement rate are appropriate. Finally, even if cuts caused firms to curtail some services to farmers, proponents claim that the results would not be significant or irreversible.

Opponents of this option argue that further cuts would impair the ability of the crop insurance industry to sell and service insurance and would threaten farmers' access to insurance. If farmers lacked insurance, opponents contend, lawmakers would be more likely to resort to expensive, special-purpose relief programs when disaster struck, negating any apparent savings from cutting the reimbursement rate. Given the current drought conditions in some areas of the country and the failure last year of the largest insurance company participating in the program, cutting reimbursement rates would further reduce companies' profits, making it harder for them to maintain the services they now provide to farmers.

350-04—Mandatory

Impose New Limits on Farm Program Payments to Producers of Certain Agricultural Commodities

(Millions of dollars)	2004	2005	2006	2007	2008	Total 2004-2008	Total 2004-2013
Savings							
Budget authority	156	180	187	180	180	883	1,654
Outlays	156	180	187	180	180	883	1,654

The government supports producers of certain commodities, including wheat, feed grains, cotton, and rice, by giving them cash payments or cash-equivalent benefits.[1] Since 1970, the amount that a producer can collect of some or all of those payments has been subject to a dollar limit. The size of such limits and how they would be applied were subjects of much debate during Congressional consideration of the recently enacted Farm Security and Rural Investment Act.[2] The new law sets limits that are similar to the ones that applied under the previous farm legislation. This option would adopt the tighter limits contained in the Senate-passed version of the farm bill (S. 1731). Savings would total $156 million in 2004 and $883 million over five years.

Producers are entitled to two different types of support payments under current law. First, they can receive fixed payments based on their historical production. Those payments are not affected by market prices. Second, producers may be entitled to additional payments, known as countercyclical payments, that depend on market prices. In addition to those two types of support, producers can receive benefits from the commodity loan program, which essentially guarantees them a minimum price for their crop. Under that program, whenever a shortfall occurs, producers receive cash payments or benefits that amount to forgiveness of a portion of the commodity loan.

Commodity program payments are made to "persons," including individuals, some partnerships, and other legal entities. Individual producers can qualify for payments through up to three different entities—such as three different farms. Thus, individuals are actually limited to receiving about twice the current farm payment limit of $105,000 per year ($40,000 per person for direct payments and $65,000 per person for countercyclical payments). In theory, an additional limit of $75,000 per person applies to commodity loan benefits, but that limit is not effective in most circumstances.

This option would limit total fixed and countercyclical payments to an individual to $75,000 per year, compared with the current effective limit of $210,000 per person. Under this option, payments would go only to individuals and would be denied to other entities in which an individual participated. Finally, this option would impose an actual limit of $150,000 per individual per year on commodity loan program benefits.

Those changes would reduce payments, particularly to large farming operations. Producers of cotton and rice would be affected to a greater degree than producers of other crops because cotton and rice tend to be produced on large farms, and the value of program benefits per acre

1. For a brief description of farm commodity programs, see Geoffrey Becker, *Farm Commodity Programs: A Short Primer*, CRS Report for Congress RS20848 (Congressional Research Service, June 20, 2002).

2. For an explanation of payment limits, see Jasper Womach, *Commodity Program Payment Limits Under the 2002 Farm Bill*, CRS Agriculture Policy and Farm Bill Briefing Book (Congressional Research Service, July 17, 2002). For a more detailed description, see Christopher R. Kelley, *Introduction to Federal Farm Program Payment Limitation and Payment Eligibility Law* (National Center for Agricultural Law Research and Information, University of Arkansas School of Law, June 2002).

for those crops is relatively high.[3] Production of those crops is concentrated in the southern and western parts of the United States.

Limiting farm program benefits has been an issue for many years. An appropriate limit depends on the perceived purpose of farm payments. Some policymakers hold that the purpose of payments should be to keep smaller, family farms in business, particularly those that are struggling financially. Lower payment limits do not necessarily increase payments to small producers, however, but only constrain payments to larger operations. Still, some supporters of this option argue that cutting payments to large operations would slow the rate of loss of small farms by reducing farmers' financial incentives to expand their operations.

Opponents of this option contend that larger payments help U.S. agriculture stay competitive in global markets. Some producer organizations have called for eliminating payment limits altogether. They say that restricting program benefits on the basis of size hurts the larger, more efficient farming operations that are better able to compete internationally.

3. See Food and Agricultural Policy Research Institute, *The House and Senate Farm Bills: A Comparative Study,* FAPRI Policy Working Paper No. 01-02 (Columbia, Missouri: University of Missouri, March 2002).